

Message Text

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C O N F I D E N T I A L TOKYO 05420

E.O. 11652: GDS
TAGS: OVIP (FUKUDA, TAKEO)
SUBJECT: FUKUDA VISIT PAPER: JAPAN AND CHINA

REF: TOKYO 4578

1. RELATIONS BETWEEN JAPAN AND CHINA ARE BASICALLY IN GOOD SHAPE. WHILE CONCLUSION OF THE LONG DISCUSSED PEACE AND FRIENDSHIP TREATY REMAINS JUST OVER THE HORIZON, THERE HAS BEEN A MAJOR STEP FORWARD IN THE MORE PRAGMATIC AREA OF ECONOMIC TIES WITH SIGNATURE OF A LONG TERM TRADE AGREEMENT.
2. THE LONG TERM TRADE AGREEMENT: THE AGREEMENT, SIGNED IN FEBRUARY, WILL RUN FOR 8 YEARS AND CALLS FOR A TOTAL OF 20 BILLION DOLLARS IN TRADE BETWEEN THE TWO COUNTRIES DURING THIS PERIOD. BASICALLY A BARTER ARRANGEMENT, IT INVOLVES JAPANESE EXPORTS OF INDUSTRIAL PLANTS, CONSTRUCTION EQUIPMENT AND MACHINERY ON A DEFERRED PAYMENT BASIS AND CHINESE EXPORTS OF OIL AND COAL FOR CASH.
3. DESPITE THE IMPORTANT IMPLICATIONS THE AGREEMENT HAS FOR CHINESE ECONOMIC DEVELOPMENT AND FOR SINO-JAPANESE COOPERATION IN THE TRADE AND TECHNICAL FIELDS, CERTAIN PROBLEMS REMAIN. FINANCING TERMS, FOR EXAMPLE, WERE CONFIDENTIAL

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LEFT FOR LATER DISCUSSION ON A CASE-BY-CASE BASIS. IT IS NO SECRET THAT THE CHINESE WOULD LIKE PREFERENTIAL TREATMENT WITHOUT REGARD TO OECD GUIDELINES (INTEREST RATES NOT LOWER THAN 7.5 PERCENT PER ANNUM, TO BE EXTENDED FOR NOT MORE THAN 5 YEARS). IN ADDITION, THE CHINESE ARE NOT TOO HAPPY WITH COCOM RESTRICTIONS. FINALLY, THE JAPANESE OIL INDUSTRY IS UNHAPPY WITH THE

AMOUNTS OF OIL IT WILL HAVE TO IMPORT, ESPECIALLY TOWARD THE END OF THE AGREEMENT, INASMUCH AS IT WILL REQUIRE SUBSTANTIAL NEW INVESTMENT IN SPECIAL REFINING TECHNOLOGY AND COULD PROVE UNECONOMICAL. DESPITE THESE PROBLEMS, HOWEVER, THE AGREEMENT MARKS A "GREAT LEAP FORWARD" IN SINO-JAPANESE ECONOMIC COOPERATION, REFLECTING CHINA'S DETERMINATION IN THE POST-MAO ERA TO CONCENTRATE ITS ENERGY ON ECONOMIC DEVELOPMENT, AND THE KEY ROLE JAPAN IS ENVISAGED PLAYING IN THAT PROCESS.

4. THE PEACE AND FRIENDSHIP TREATY: THE LAST REMAINING ITEM TO BE DEALT WITH FOLLOWING NORMALIZATION OF RELATIONS BETWEEN CHINA AND JAPAN IN SEPTEMBER 1972, THE PEACE AND FRIENDSHIP TREATY, HAS BEEN STALLED IN NEGOTIATIONS SINCE 1975. CURRENTLY THERE ARE INDICATIONS THAT PRIME MINISTER FUKUDA HAS DECIDED TO TRY TO MOVE THE SITUATION FORWARD BY DISPATCHING FOREIGN MINISTER SONODA TO PEKING FOR THE REOPENING OF FORMAL NEGOTIATIONS. THE MAJOR STUMBLING BLOCK IS THE SO-CALLED "ANTI-HEGEMONY CLAUSE", WHICH THE JAPANESE SEEK TO SOFTEN SO AS NOT UNDULY TO ANTAGONIZE THE SOVIETS, WHILE THE CHINESE REMAIN TOTALLY UNSYMPATHETIC TO THIS JAPANESE CONCERN. ACTUAL WORDING BETWEEN THE TWO SIDES, HOWEVER, IS NOT FAR APART. FUKUDA HAS EMBARKED ON EXTENSIVE LIBERAL DEMOCRATIC PARTY CONSULTATIONS PRIOR TO A FINAL DECISION ON A PROPOSED INITIATIVE TO SEND SONODA TO PEKING TO BREAK THE CURRENT DEADLOCK. IF IT
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TAKES PLACE, THE FOREIGN OFFICE CURRENTLY RATES THE CHANCES FOR SUCCESS OF A SONODA VISIT AT ONLY 50-50.

5. THE JAPAN-ROK CONTINENTAL SHELF AGREEMENT: ONE POSSIBLE POLITICAL IRRITANT IN SINO-JAPANESE AFFAIRS IS THE JAPAN-ROK CONTINENTAL SHELF AGREEMENT. THE PRC HAS TWICE VIGOROUSLY PROTESTED THE AGREEMENT, SIGNED BY THE TWO PARTIES IN 1974 AND RATIFIED BY THE DIET IN 1977, AS A "FLAGRANT VIOLATION OF CHINESE SOVEREIGNTY", AND HAVE WARNED THAT ANYONE UNDERTAKING EXPLORATION IN THE ZONE MUST TAKE FULL RESPONSIBILITY FOR THE CONSEQUENCES.
MANSFIELD.

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